

RenaissanceRe Holdings (RNR)

\$171.15 (As of 05/21/20)

Price Target (6-12 Months): **\$180.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: F

Summary

Shares of RenaissanceRe have outperformed its industry in a year's time. Its investment portfolio, consisting of high-quality, liquid-fixed income government and corporate securities with a relatively low allocation to equities is impressive. It has been witnessing steady premium growth over the past few quarters, driven by Casualty and Specialty plus Property segments. The company has been acquiring companies to strengthen its core operating business. Its capital position is another positive. However, this property and casualty insurer remains exposed to severe losses associated with catastrophic events. Further, the company's first-quarter 2020 earnings per share of 76 cents missed the Zacks Consensus Estimate of \$3.87 by 80.4% and also plunged 78.8% year over year due to the COVID-19 effect.

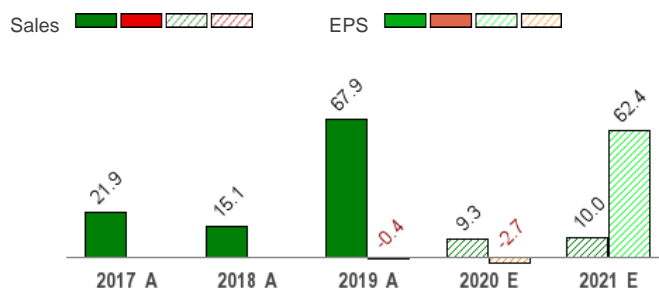
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$202.68 - \$113.27
20 Day Average Volume (sh)	400,489
Market Cap	\$7.5 B
YTD Price Change	-12.7%
Beta	0.39
Dividend / Div Yld	\$1.40 / 0.8%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 44% (141 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-80.4%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-38.7%
Expected Report Date	07/28/2020
Earnings ESP	0.0%
P/E TTM	27.0
P/E F1	19.3
PEG F1	2.0
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,528 E
2020	1,008 A				4,117 E
2019	635 A	1,028 A	1,022 A	1,083 A	3,767 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.33 E	\$4.38 E	\$3.00 E	\$4.32 E	\$14.42 E
2020	\$0.76 A	\$3.09 E	\$1.86 E	\$3.18 E	\$8.88 E
2019	\$3.60 A	\$4.78 A	\$0.29 A	\$0.52 A	\$9.13 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/21/2020. The reports text is as of 05/22/2020.

Overview

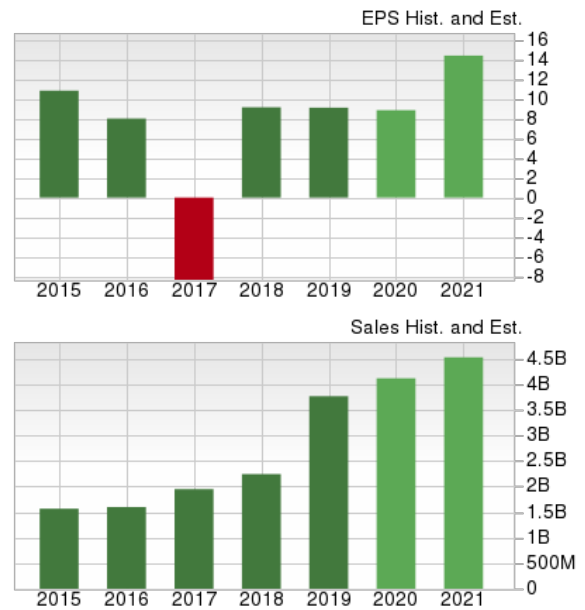
Founded in 1993 and based in Hamilton, Bermuda, RenaissanceRe Holdings Ltd. primarily provides property-catastrophe reinsurance to insurers and reinsurers globally on the basis of excess of loss (coverage of losses over a specified limit). Additionally, RenaissanceRe provides certain specialty reinsurance coverage on accident, health, aviation and satellite concerns, as well as homeowners' insurance in various parts of the U.S. The company also writes specialty and catastrophe reinsurance through two joint ventures, Top Layer Re and Reinsurance, and through certain specialty reinsurance and primary insurance lines.

RenaissanceRe conducts its business through three reportable segments: **Property**, **Specialty** and **Other**.

The Property segment (accounted for 50.6% of the total gross premium written in 2019): This includes its catastrophe class of business, principally consisted of excess of loss reinsurance and excess of loss retrocessional reinsurance to insure insurance and reinsurance companies against natural and man-made catastrophes, and its other property class of business.

Specialty (49.4%): The Company writes Specialty reinsurance and insurance covering primarily targeted classes of business. The Company offers its casualty and specialty reinsurance products principally on a proportional basis, and it also provides excess of loss coverage.

The company's **Other** segment category primarily includes the results of its share of investments in certain markets. It also includes the results of its investment unit, which manages and invests the funds generated by its consolidated operations.



Reasons To Buy:

- ▲ **Price Impact:** Shares of RenaissanceRe have outperformed its industry in a year's time. Growing premiums, strategic portfolio realignment and efficient capital deployment should continue to drive the stock going forward.
- ▲ **Growing Premiums:** RenaissanceRe has been witnessing a positive trend in gross premiums written, which has doubled over a span of five years, driven by premium growth at both its Casualty and Specialty plus Property segments. This upside is pretty visible from its five-year CAGR (2014 to 2019) of 25.4%, primarily led by strong segmental results. In the first quarter of 2020, gross premiums written increased 29.5% year over year to \$2 billion. This consistent increase in premiums is likely to drive the top line further for RenaissanceRe.
- ▲ **Inorganic growth:** The company has been undertaking divestitures to streamline its operations by getting rid of low-return high-risk businesses. To this end it sold off its U.S based weather and weather-related energy risk management unit, to save itself from the uncertainties associated with that business. On the other hand, it is also acquiring and expanding businesses which provides scope to grow. In March 2019, the company bought Tokio Millennium Re for a value of \$1.5 billion to increase the scale and boost the company's portfolio. We expect such strategic initiatives will enable the company to focus and grow its core operating business.
- ▲ **Strong Solvency Position:** Net debt of the company represents 19% (in line with the sequential level) of its capital, higher than the industry's average of 9.8%. As of Mar 31, 2020, it has cash and cash equivalents worth \$896.2 million and around \$1 billion in excess capital, higher than its debt level of \$1.1 billion. Moreover, it doesn't have any additional debt maturing until 2025. The company also has \$500 million available under its revolving credit facility, which is still undrawn. Thus the company's solvency position looks strong.
- ▲ **Capital Deployment:** The company has been witnessing growing free cash flow over the past few years. This is evident from its 2014-2019 CAGR of 26.5% for cash flow from operations. RenaissanceRe has been deploying excess capital to business over the last several quarters. It has been raising dividend since the past many years. It currently has a dividend yield of 0.8%, higher than the industry average of 0.5%.

Accelerated capital deployment and strategic divestitures should boost investor confidence. Its rising premiums on the back of solid segmental contributions also impresses.

Reasons To Sell:

▼ **Catastrophe Loss:** RenaissanceRe remains exposed to high severity loss associated with catastrophic events on a worldwide basis. In 2018, the company suffered a negative impact of \$340 million on underwriting results due to catastrophe losses. In 2019, the company faced a \$75-million of insured catastrophe losses, California wildfires, Typhoons Faxai and Hagibis in Japan and Hurricane Dorian in the Caribbean. Being a property and casualty insurer, the company is always exposed to cat activities, the occurrence of which imparts volatility to its results.

▼ **Overvalued:** Looking at the company's valuation, investors might not want to pay any further premium. The company's price to book ratio stands at 1.5, higher than the industry's average of 1.

▼ **Weak Return on Equity:** Its return on equity is a concern, which currently stands at 6.1%, lower than its industry's average of 6.6%.

Exposure to catastrophe loss as well as weak return on equity are some of the concerns facing the company.

Last Earnings Report

RenaissanceRe's Q1 Earnings Miss Estimates, Drop Y/Y

RenaissanceRe delivered first-quarter 2020 operating earnings per share of 76 cents, missing the Zacks Consensus Estimate of \$3.87 by 80.4% due to the COVID-19 effect. Moreover, the bottom line plunged 78.8% year over year.

Quarterly Operational Update

Total revenues of \$896 million improved 11% year over year on the back of higher gross premium written and solid net investment income.

Gross premiums written increased 29.5% year over year to \$2 billion owing to higher premiums at the Property as well as the Casualty and Specialty segments.

Net investment income of \$99.4 million rose 21.2% year over year.

RenaissanceRe's total expenses of \$880 million escalated 97.1% year over year, primarily due to steep net claims and claim expenses, acquisition costs and operational expenses.

Underwriting income of \$64.1 million slumped 58.4% year over year. The company's underwriting results were negatively impacted by an underwriting loss at the Casualty and Specialty segment.

Combined ratio of 93% in the first quarter compared with the year-ago quarter's 72%.

Quarterly Segment Update

Property Segment

Gross premiums written were \$1.2 billion, up 18.2% year over year in the first quarter.

Underwriting income of \$147.1 million was down 3.5% year over year due to higher current accident year net claims and claim expenses and a greater number of small insured catastrophe events.

Combined ratio of 65.1% expanded 1750 basis points (bps) year over year.

Casualty and Specialty Segment

Gross premiums written of \$805.2 million were up 51.4% from the prior-year quarter. This upside is driven by the buyouts in connection with TMR Group Entities and growth in the current and new business opportunities within a few classes of business.

The segment's underwriting loss of \$83.2 million was against the year-ago quarter's underwriting gain of \$1.7 million.

Combined ratio of 116.9% expanded 1760 bps year over year.

Share Repurchase Update

RenaissanceRe bought back shares worth \$62.6 million in the quarter under review.

Business Update

The company successfully closed the buyout of Tokio Millennium Re AG (now known as RenaissanceRe Europe AG) and Tokio Millennium Re (UK) Limited in March.

Financial Position

As of Mar 31, 2020, total assets of RenaissanceRe were \$27.4 billion, up 4.3% from the level at 2019 end.

The company had total debt of \$1.1 billion as of Mar 31, 2020, down 18% from the level at 2019 end.

Cash and cash equivalents were \$896.2 million, down 35% from the figure at 2019 end.

Book value per share of \$117.15 decreased 2.8% from the number at 2019 end.

Annualized operating return on equity for the quarter under review was 2.6%.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	NA
EPS Surprise	-80.36%
Quarterly EPS	0.76
Annual EPS (TTM)	6.35

Recent News

RenaissanceRe Announces Quarterly Dividend — May 20, 2020

RenaissanceRe announced quarterly dividend of 35 cents per share, payable Jun 30, 2020, to its shareholders of record as of Jun 15, 2020.

RenaissanceRe Announces Redemption of Remaining 6.08% Series C Preference Shares — Feb 26, 2020

RenaissanceRe announced that it will call the remaining 5,000,000 of its outstanding 6.08% Series C Preference Shares for mandatory redemption on Mar 26, 2020.

RenaissanceRe Raises Quarterly Dividend — Feb 7, 2020

RenaissanceRe announced that its board of directors approved a hike of nearly 3% in its quarterly dividend payment, thereby, marking the 25th year of a consecutive dividend increase. The new dividend of 35 cents per share will be paid out on Mar 31, 2020, to its shareholders of record as of Mar 13, 2020.

Valuation

RenaissanceRe shares are down 16.1% in the year-to-date period and 0.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 23% and 26% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 16.1% and 18.4%, respectively.

The S&P 500 index is down 7.6% in the year-to-date period and up 5.2% in the past year.

The stock is currently trading at 1.47x trailing 12-month tangible book value, which compares to 1.14x for the Zacks sub-industry, 2.36x for the Zacks sector and 4.06x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.68x and as low as 0.99x, with a 5-year median of 1.26x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$180 price target reflects 1.55x tangible book value.

The table below shows summary valuation data for RNR

Valuation Multiples - RNR					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.47	1.14	2.36	4.06
	5-Year High	1.68	1.67	2.9	4.55
	5-Year Low	0.99	0.92	1.71	2.83
	5-Year Median	1.26	1.46	2.53	3.65
P/S F12M	Current	1.76	1.4	5.81	3.36
	5-Year High	3.52	11.26	6.7	3.44
	5-Year Low	1.26	1.4	4.98	2.53
	5-Year Median	2.83	1.88	6.06	3

As of 05/21/2020

Industry Analysis Zacks Industry Rank: Bottom 44% (141 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Stewart Information Services Corporation (STC)	Outperform	3
Principal Financial Group, Inc. (PFG)	Neutral	3
ProAssurance Corporation (PRA)	Neutral	3
Everest Re Group, Ltd. (RE)	Neutral	4
Selective Insurance Group, Inc. (SIGI)	Neutral	3
State Auto Financial Corporation (STFC)	Neutral	5
Arch Capital Group Ltd. (ACGL)	Underperform	5
Argo Group International Holdings, Ltd. (ARGO)	Underperform	5

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	RNR	X Industry	S&P 500	ARGO	SIGI	STC
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Outperform
Zacks Rank (Short Term)	4	-	-	5	3	3
VGM Score	F	-	-	D	D	B
Market Cap	7.54 B	1.05 B	20.19 B	1.05 B	3.10 B	725.14 M
# of Analysts	3	2	14	3	3	1
Dividend Yield	0.82%	1.19%	2.11%	4.08%	1.77%	3.92%
Value Score	F	-	-	B	C	B
Cash/Price	2.45	0.22	0.07	0.91	0.19	0.46
EV/EBITDA	-8.28	4.84	12.15	10.81	7.34	4.19
PEG Ratio	2.00	2.05	2.71	NA	9.02	NA
Price/Book (P/B)	1.46	0.98	2.74	0.64	1.48	0.98
Price/Cash Flow (P/CF)	19.85	8.65	10.98	NA	9.66	7.82
P/E (F1)	19.00	13.05	20.17	26.05	15.25	14.11
Price/Sales (P/S)	1.76	0.73	2.07	0.55	1.10	0.37
Earnings Yield	5.19%	7.28%	4.73%	3.85%	6.56%	7.09%
Debt/Equity	0.22	0.26	0.76	0.30	0.26	0.29
Cash Flow (\$/share)	8.62	3.12	6.96	-0.10	5.38	3.92
Growth Score	C	-	-	F	C	B
Hist. EPS Growth (3-5 yrs)	-4.38%	4.86%	10.87%	-5.96%	11.89%	9.03%
Proj. EPS Growth (F1/F0)	-2.77%	-1.98%	-10.31%	229.63%	-22.50%	-21.09%
Curr. Cash Flow Growth	3.81%	5.61%	5.46%	-102.44%	21.30%	13.14%
Hist. Cash Flow Growth (3-5 yrs)	-6.72%	7.31%	8.55%	NA	13.47%	8.81%
Current Ratio	1.50	0.45	1.29	0.57	0.32	4.45
Debt/Capital	43.45%	20.55%	44.54%	23.37%	20.80%	22.25%
Net Margin	9.16%	3.92%	10.54%	-6.24%	8.02%	4.57%
Return on Equity	6.06%	7.52%	16.27%	-3.30%	12.30%	11.32%
Sales/Assets	0.16	0.31	0.54	0.18	0.32	1.29
Proj. Sales Growth (F1/F0)	9.30%	0.00%	-2.49%	-2.47%	-1.79%	0.00%
Momentum Score	F	-	-	F	D	D
Daily Price Chg	-0.64%	0.44%	-0.76%	-0.56%	2.60%	-1.00%
1 Week Price Chg	-0.47%	-5.25%	-4.56%	-15.99%	-3.39%	-0.93%
4 Week Price Chg	18.53%	0.33%	5.52%	-7.29%	7.91%	4.33%
12 Week Price Chg	-4.57%	-20.04%	-8.54%	-48.01%	-12.72%	-17.09%
52 Week Price Chg	0.08%	-21.64%	-6.30%	-57.29%	-27.37%	-28.31%
20 Day Average Volume	400,489	144,159	2,645,192	260,843	398,856	162,935
(F1) EPS Est 1 week change	-18.01%	0.00%	0.00%	-23.08%	0.00%	0.00%
(F1) EPS Est 4 week change	-38.71%	-8.47%	-3.80%	-46.97%	-14.89%	-19.63%
(F1) EPS Est 12 week change	-41.83%	-18.82%	-16.57%	-63.54%	-19.45%	-17.18%
(Q1) EPS Est Mthly Chg	-16.82%	-12.54%	-7.64%	-96.65%	-42.81%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	C
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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